




## *Report to the Auburn City Council*

Action Item 14  
Agenda Item No.

  
City Manager Approval

**To:** Mayor and City Council Members  
**From:** Jack Warren, Director of Public Works  
 Bernie Schroeder, Engineering Division Manager   
**Date:** June 27, 2009  
**Subject:** Wastewater Treatment Plant Operations Contract

### **The Issue**

Shall the City approve a contract with CH2M Hill – Operations Management International (OMI) for operations, maintenance and management of the City's Wastewater Treatment Plant?

### **Conclusion and Recommendation**

Staff recommends that BY RESOLUTION the City Council authorize the Director of Public Works to execute a contract and Amendment No. 1 with CH2M Hill OMI for operations, maintenance and management of the City's Wastewater Treatment Plant.

The final contract will be subject to legal review and minor revisions by the City Attorney relating to compliance with the City's tax exempt financing options.

### **Background**

This is a continuing item from the June 6, 2009 Council Meeting. The contract with CH2M Hill OMI is in final review and will be approved by both legal teams. At the June 22, 2009 City Council meeting, the City Council approved a one month extension to the current CH2M Hill OMI contract to allow additional time for the legal review by the City and CH2M Hill OMI to be completed.

Contract Details with approval of Amendment No. 1:

Three (3) year contract renewal until July 1, 2012

Management Fee of \$218,737 for FY 09/10 (Year 18), \$228,580 for FY 10/11 (Year 19), \$238,866 for FY 11/12 (Year 20)

Operate the WWTP

Lift Station Maintenance

City provides 1 maintenance worker to assist with collection system

CH2M Hill OMI has provided additional information regarding the management fee which is attached. Refer to Appendix E – Compensation, Payment and Base Fee Adjustment Formula for the management fee figures for the Contract without Amendment No. 1

***Sewer Collection System:***

Amendment No. 1 to the attached CH2M Hill – OMI base contract change is a proposed shifting of a portion of the collection system maintenance activities from their contract to City Staff. Specifically, the City would allocate one Public Works Maintenance worker to be responsible for the cleaning and maintenance of the main sewer lines. Due to our discharge permit requirements, CH2M Hill – OMI would retain the responsibility for the sewer lift stations and Sanitary Sewer Management Plan (SSMP) but the City would assist in the operation of the televising and sewer cleaning equipment in conformance to the approved SSMP. If this Amendment No. 1 is approved it will decrease the contract by the following for fiscal year 2009-2010:

	New Contract	Amendment No. 1	Difference
Direct Cost Budget	\$1,484,590	\$1,415,980	\$68,610
Management Fee	\$229,445	\$218,737	\$10,708
Incentive	\$20,000	\$20,000	\$0
Total Available Compensation	\$1,734,035	\$1,645,717	\$79,318

***Additional Information:***

OMI has been operating, maintaining and managing the City's Wastewater Treatment Plant and Sewer Collection System since 1993. In October 2004 the City Council approved a five year contract with CH2M Hill - OMI to continue operations of the Wastewater Treatment Plant and Sewer Collection System, which now expires on July 31, 2009 due to a one month extension on the contract. The contract was a Direct Cost budget contract with the exception of the Management Fee and Performance Incentive Fee. The Direct Cost budget contract is based on actual costs to run the wastewater treatment plant, maintain the sewer collection system and maintain the sewer lift stations. OMI submits an expenditure report each month outlining the costs for approval by City staff and shows any deviation from the budgeted amount. At the end of each year there is a reconciliation report which reimburses one party or the other. The reconciliation report is also used to determine the budget for the upcoming year. The Direct Cost contract has been very effective given the changing fuel prices, chemical use and operations cost necessary to remain in compliance with the Central Valley Regional Water Quality Control Board discharge requirements.

The draft contract as provided under separate cover is subject to the final review of the City Attorney to ensure contract compliance regarding tax exempt financing for the upcoming Wastewater Treatment Plant Improvement Project. Unforeseen circumstances on the part of the CH2MHill/OMI legal counsel has not allowed sufficient time to finalize the draft contract by the agenda deadline however staff believes this will be completed before or shortly after the July 27<sup>th</sup> council meeting. Staff will report on this status during item discussion.

**Alternatives Available to Council; Implications of Alternatives**

1. Proceed with staff recommendation
2. Do not proceed with staff recommendation

**Fiscal Impact**

Currently the City's contract with CH2M Hill – OMI for the operations and maintenance of the WWTP is \$1,643,039 for fiscal year 2008/2009. The proposed contract for fiscal year 2009/10 is \$1,654,717 reflecting Amendment No. 1. The contract will still be a direct charge budget for the

remainder of the contract term. Adequate funds exist in the sewer fund to cover these expenditures without the necessity of initiating a sewer rate increase at this time.

*Draft Contract & Amendment No. 1 Available for Viewing in City Clerk's Office*

**MEMORANDUM**

**TO:** Bernie Schroeder, Jack Warren

**COPIES:** Greg Wiltfong

**FROM:** Dennis Burrell

**DATE:** July 8, 2009

**SUBJECT** Auburn, CA Contract Renewal

---

As you have requested I am providing the information regarding CH2M HILL OMI's management fee and a narrative best describing the components of the management fee as well as justification for a fee increase.

The CH2M HILL OMI management fee is primarily comprised of overhead support cost for the project and the City of Auburn and a small portion for company profit. The format of the fixed management fee was a mutually agreed upon method between the City and OMI several years ago. As you can see from the attached management fee slide titled; **Support Services and Costs Provided in OMI's Management Fee**, the management fee is employee and systems driven. From the employee side there are programs that provide first and foremost a robust safety program to keep employees safe, technical and quality training so employees are equipped to maximize the efficiency in the ways they approach and complete work for the City of Auburn. The other employee components are the human resource driven programs; benefits, payroll, support, retirement planning, 401K, EAP hotline, etc. The systems driven portion encompasses programs for environmental compliance (placing priority on protecting receiving waters), laboratory (ensure State and EPA standards are followed), risk management (noise, odor and emergency preparedness plans, etc), purchasing (using CH2M HILL's purchasing power provides savings for clients), IT support for computer hardware and software. In addition the City also is provided with the support of a regional support network in which specialist assist the project throughout the year in the areas of maintenance, operations and process control, optimization and again safety and laboratory. This network also is a project and client resource to answer questions on a variety of subjects. Through the professional services agreement with CH2M HILL OMI the City has access to the global network of CH2M HILL.

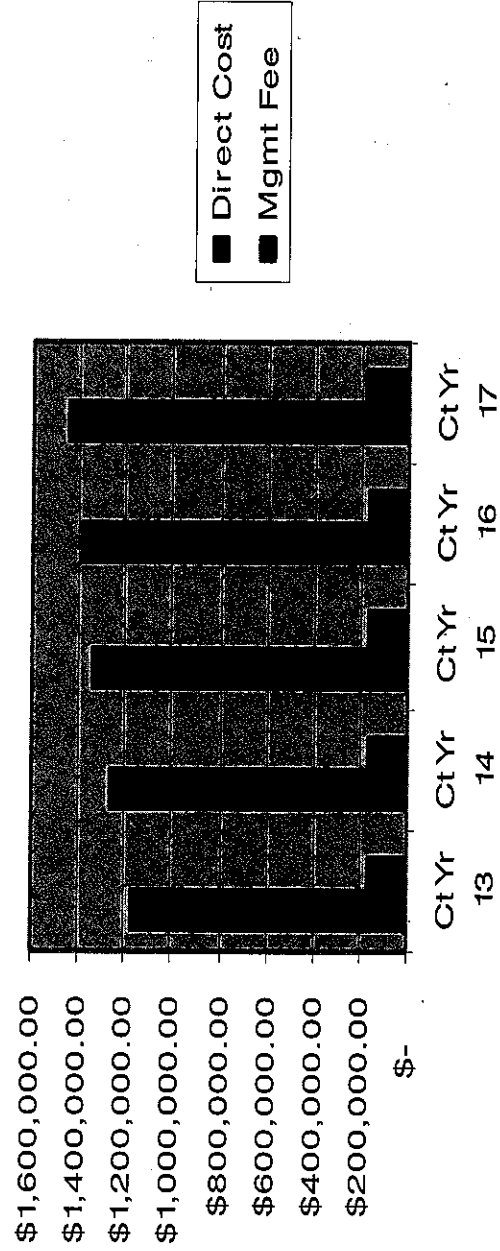
All of these systems are established to provide safety and training to develop a well qualified staff, protection for the environment and safeguard receiving waters and to ensure the City's assets are well cared for. These systems ultimately provide the quality of service that the City of Auburn expects as well as deserves. As you, Jack and I have met over the past several months to discuss the contract renewal we were able to come together to understand the benefits these programs have provided to the City of Auburn as part of our services.

We also discussed during our meetings the trends of the management fee and an agreed upon approach and opportunity to make a reasonable adjustment. As you can see from the information provided in the **Auburn Fee Comparison file attachment**, the management fee has been declining as compared to direct cost increases over the last several years. The management fee on average has risen by a little less than 2.8% (due to this being a fixed percentage) while the direct cost increases have risen more than 4.7% (economy driven) over the same time period. See attached graph for a detailed explanation. At the time the contract was renewed five years ago the anticipation was that direct cost increase escalation, based on the current economy, would not be higher than the annual fixed management fee increase and that CH2M HILL OMI would be able to recover back to a reasonable fee over the contract term. Many of same items that have attributed to an average increase of approximately 5% increase in the direct cost are also contained within the management fee; labor, benefits, consumable purchases, etc. CH2M HILL OMI's request in this current contract renewal is to recover the management fee back to a reasonable level that works for the City of Auburn as well as the Company. CH2M HILL OMI has taken the current state of the economy and challenges into careful consideration and has worked in true partnership with the City to develop a fee and contract that is mutually agreeable. Depending on which option the City prefers to choose we are requesting a management fee of \$228,455 (Option A) or \$217,747 for (Option B - City provides one FTE for collections).

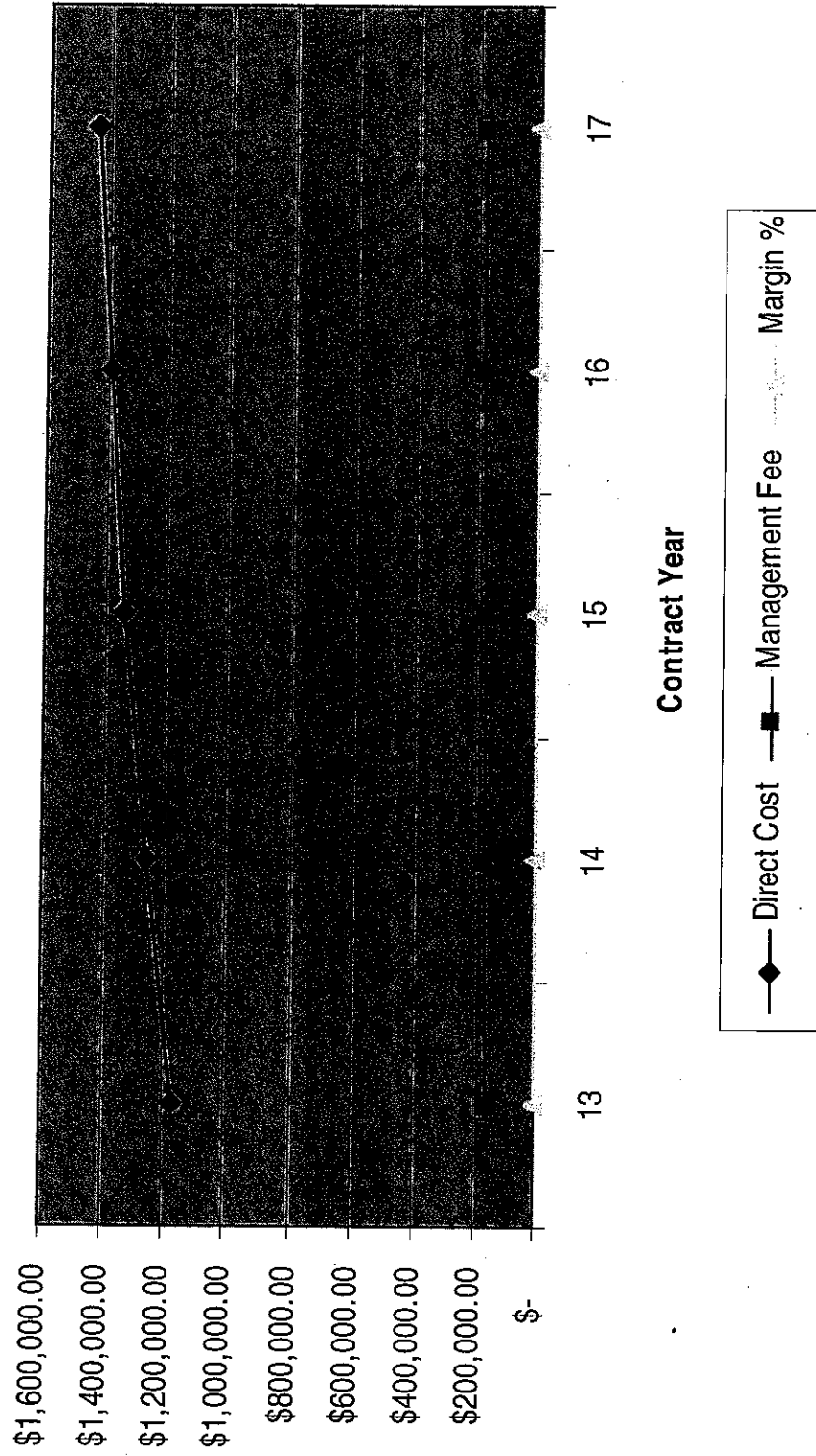
# Direct Cost vs. Management Fee

	CtYr 13	CtYr 14	CtYr 15	CtYr 16	CtYr 17	Change	Average
Direct Cost	\$ 1,169,100.68	\$ 1,264,726.50	\$ 1,343,349.80	\$ 1,387,657.00	\$ 1,442,771.57	18.97%	4.74%
Mgmt Fee	\$ 160,165.00	\$ 164,970.00	\$ 169,919.00	\$ 175,017.00	\$ 180,267.00	11.16%	2.79%

## Direct Cost vs. Management Fee



# Historical Cost Trend

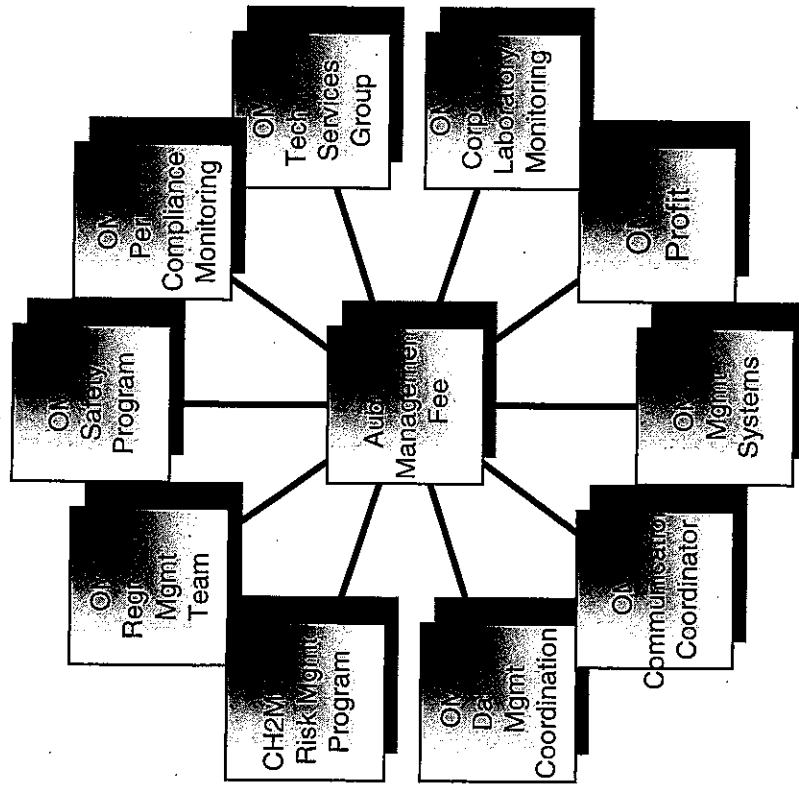


# Cost Data

Contract Year	CtYr 13	CtYr 14	CtYr 15	CtYr 16	CtYr 17
Revenue	\$1,329,265.68	\$1,429,696.50	\$1,513,268.80	\$1,562,874.00	\$1,643,039.00
Direct Cost	\$1,189,100.68	\$1,264,726.50	\$1,343,349.80	\$1,387,657.00	\$1,442,771.57
Management Fee	\$160,165.00	\$164,970.00	\$169,919.00	\$175,217.00	\$180,267
Margin %	12.05%	11.54%	11.23%	11.21%	10.97%



# Support Services and Costs Provided in OMI's Management Fee



## ADDITIONAL SUPPORT

- Human Resources Support
- Payroll
- Purchasing
- Regional Mgmt Team
  - Maintenance Coordination
  - Safety Coordination
  - Operations Technical Specialists
  - Lab Coordination
- Legal
- Toll Free IT Call Center
- Benchmarking Tools (Data Mine, OptNet)
- Toll Free 3<sup>rd</sup> Party Ethics and Legal Hotline
- Tech Support on Maintenance and Operations Software Programs
- Communications Infrastructure to request and receive peer assistance
- Obsessed with Quality Process

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

RESOLUTION NO. 09-  
RESOLUTION AUTHORIZING A CONTRACT FOR OPERATIONS OF THE AUBURN  
WASTEWATER TREATMENT PLANT.

-----

THE CITY COUNCIL OF THE CITY OF AUBURN DOES HEREBY RESOLVE:

That the City Council of the City of Auburn does hereby authorize the  
Director of Public Works to execute a contract and Amendment No. 1 with  
CH2M Hill OMI for operations, maintenance and management of the City's  
Wastewater Treatment Plant.

A true and correct copy of said Contract and Amendment No. 1 is attached  
hereto as Exhibit "A" and "B."

DATED: July 27, 2009

\_\_\_\_\_  
J.M. Holmes, Mayor

ATTEST:

\_\_\_\_\_  
Joseph G. R. Labrie, City Clerk

I, Joseph G. R. Labrie, City Clerk of the City of Auburn, hereby certify  
that the foregoing resolution was duly passed at a regular session meeting of  
the City Council of the City of Auburn held on the 27<sup>th</sup> day of July 2009 by the  
following vote on roll call:

Ayes:  
Noes:  
Absent:

\_\_\_\_\_  
Joseph G. R. Labrie, City Clerk